

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AGR-05 SP-02 USIA-06 AID-05 EB-07

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

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P 151530Z AUG 76

FM AMEMBASSY SANTO DOMINGO

TO SECSTATE WASHDC PRIORITY 7953

C O N F I D E N T I A L SANTO DOMINGO 3974

E.O. 11652: GDS

TAGS: EFIN, ETEL, DR

SUBJECT: BALANCE -OF-PAYMENTS CRISIS DEVELOPING

REFS: (A) SANTO DOMINGO3866

(B) SANTO DOMINGO A-96

(C) SANTO DOMINGO A-49

(D) SANTO DOMINGO A-40

(E) 75 SANTO DOMINGO 5616

1. DUE TO THE SUBSTANTIAL FALL IN THE PRICE OF SUGAR, TO THE FAILURE TO SELL AS YET SOME 155,000 METRIC TONS OF THE ANTICIPATED MILLION METRIC TONS OF EXPORTABLE SUGAR, AND TO THE CONTINUINGLY INCREASING PRICE OF DOMINICAN IMPORTS, A BALANCE-OF-PAYMENTS DEFICIT IS DEVELOPING WHICH WILL LIKELY BE IN THE RANGE OF DOLLARS 100-200 MILLION IN 1976. TO MEET THIS CRITICAL SITUATION, THE GODR WILL PROBABLY HAVE TO ENGAGE IN SUBSTANTIAL BORROWINGS FROM ABROAD, FURTHER RESTRICT IMPORTS, AND SEEK RESCHEDULING OR POSTPONEMENT OF SOME FOREIGN DEBTS. A STAND-BY AGREEMENT WITH THE IMF MAY BE REQUIRED.

2. ALTHOUGH WE HAVE HAD SOME HINT THAT THE GODR WAS HEADING TOWARD B/P DIFFICULTY (PRESIDENT BALAGUER BROACHED THE SUBJECT OF DEBT
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RESCHEDULING WITH THE SECRETARY AND THEN ASSISTANT SECRETARY ROGERS

DURING THEIR JUNE VISIT), THE SCOPE OF THE PROBLEM HAS BECOME MANIFEST IN THE PAST TWO MONTHS. THE NEW CENTRAL BANK GOVERNOR, FERNANDO PERICHE, HAS RECENTLY INFORMED US THAT THE TOTAL NET FOREIGN EXCHANGE HOLDINGS OF THE COUNTRY WERE DOLLARS SEVEN MILLION WHEN HE BECAME GOVERNOR ON JUNE 1 AND THAT CURRENTLY THE NATION HAS ONLY ABOUT ONE MILLION IN FOREIGN EXCHANGE. SUBSTANTIAL DEBT PAYMENTS ABROAD ARE BECOMING DUE, INCLUDING DOLLARS FORTY MILLION IN SEPTEMBER TO VENEZUELA FOR PETROLEUM IMPORTS. EXACERBATING THE FINANCIAL SITUATION HAS BEEN THE RECENT DEVELOPMENT OF A SEVERE POWER SHORTAGE WHICH HAS ADVERSELY AFFECTED PRODUCTION THROUGHOUT THE COUNTRY TO A SUBSTANTIAL DEGREE.

3. THE GODR IS BEGINNING TO TAKE FIRST (AND EASIEST) STEPS TO SEEK TO COVER THE GAP FOR 1976. GULF AND WESTERN HAS BEEN ASKED TO ADVANCE BY NEARLY SIX MONTHS PAYMENT OF ITS SUBSTANTIAL (ABOUT DOLLARS 15 MILLION) TAXES (GULF AND WESTERN IS BALKING OVER THE POTENTIAL LOSS OF INTEREST). IN ITS NEGOTIATIONS WITH ROSARIO RESOURCES, THE GODR HAS MANIFESTED CONSIDERABLE INTEREST IN THE ROSARIO OFFER TO "BUY OUT "

ITS LOCAL BANK INDEBTEDNESS BY BRINGING IN ABOUT DOLLARS 25 MILLION OF FOREIGN EXCHANGE (SUCH A MOVE WOULD COME ONLY AFTER THE GODR AND ROSARIO HAVE REACHED AGREEMENT ON ALL OTHER POINTS OF THEIR CURRENT NEGOTIATIONS - NOT AN EARLY PROSPECT). THE GODR HAS ALSO INVITED THE IMF TO SEND A REPRESENTATIVE TO DISCUSS THE SITUATION. IN RESPONSE, THE BRAZILIAN EXECUTIVE DIRECTOR IN THE IMF, WHO ALSO REPRESENTS THE DOMINICAN REPUBLIC, ALEX KAFKA, WILL ARRIVE AUGUST 17.

4. THE B/P GAP WILL NOT BE EASILY CLOSED. IMF COMPENSATORY FINANCING COULD PRODUCE DOLLARS 24.7 MILLION, AND A DRAWING OF THE FIRST CREDIT TRANCHE (THE GOLD TRANCHE HAS ALREADY BEEN DRAWN) WOULD PRODUCE AN ADDITIONAL DOLLARS 17.9 MILLION, FOR AN IMF TOTAL OF DOLLARS 42.6 MILLION. ALTHOUGH THE CENTRAL BANK HAS STAND-BY LINES OF CREDIT WITH VARIOUS FOREIGN BANKS OF ALMOST DOLLARS 100 MILLION, IT IS GOOD FOR ONLY ONE YEAR AND COMMERCIAL RATES OF INTEREST CAUSE THE GODR CONFIDENTIAL

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TO RESIST THAT COURSE.

5. WHEN THE AMBASSADOR RECENTLY HAD OCCASION TO REMIND PRESIDENT BALAGUER OF THE DOLLARS 4.2 MILLION 1976 PL 480 INDEBTEDNESS OF WHICH NEARLY DOLLARS THREE MILLION WERE ALREADY IN ARREARS, BALAGUER LAUNCHED INTO A DESCRIPTION OF THE SPECTRE OF THE SUBSTANTIAL B/P DEFICIT HE WAS FACING, IN A MANNER THAT INDICATED THAT HE TOO WAS JUST BEGINNING TO REALIZE THE MAGNITUDE OF THE PROBLEM. HE ALLUDED

TO HIS CONVERSATION WITH THE SECRETARY AND UNDER SECRETARY ROGERS REGARDING DEBT RESCHEDULING AND MADE IT CLEAR THAT IN LIGHT OF HIS UNHAPPY FOREIGN EXCHANGE SITUATION, IT WAS DOUBTFUL INDEED THAT HE COULD MEET ALL HIS PENDING FOREIGN OBLIGATIONS. THE AMBASSADOR REPLIED THAT DURING HIS CONSULTATION IN THE DEPARTMENT IN JUNE, HE HAD LOOKED INTO THE QUESTION OF PL 480 DEBT RESCHEDULING AND HAD BEEN PERSUADED THAT, GIVEN THE DOMINICAN B/P SITUATION AS IT WAS UNDERSTOOD AT THE TIME, SEEKING IMF COMPENSATORY FINANCING WAS THE WISER COURSE FOR THE GODR. BALAGUER EVINCED INTEREST IN THE IMF POSSIBILITY BUT AT THE SAME TIME DID NOT ABANDON HIS THOUGHT ABOUT SOME SORT OF RESCHEDULING. THE PRESIDENT AND THE AMBASSADOR BOTH AGREED TO GIVE THE SITUATION MORE THOUGHT AND MEET AGAIN SOME TIME DURING THE WEEK OF AUGUST 16.
HURWITCH

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